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SUBJECT: EU/GALILEO/GPS: POLITICAL CAVEATS FOR AMERICAN CONTRACTORS

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¶1. (U) SUMMARY: American subcontractors could be well-placed to partner with primary EU contractors as the EU presses on with its aggressive schedule to attain an operational 30-satellite Galileo constellation by 2013. Successful bidders will have to keep in mind that Galileo projects have technical and especially political components that could shift up to the final bidding moment in summer 2009. EU political considerations will present special challenges, not only because there will be pressure to keep design honors at home but also because there will be a push to protect EU jobs from going to the Americans in these financially uncertain times. END SUMMARY.

¶2. (SBU) On December 16, Munich Consulate PolOff and Economic Specialist met with officials from EADS Astrium Germany (Munich) to discuss the company's role in the Galileo project, Astrium's prospects in the bidding process, and where American firms could fit in. Astrium officials highlighted how their proposal to build 26 of the 30 satellites, valued at 3.4 billion euro and the Galileo contractual crown jewel, will be superior to their only competitor, OHB Technologies of Bremen. They stated their desire to partner with U.S. contractors to strengthen the technical aspects of their proposal.

GALILEO CONTRACTS TAKING SHAPE AGAINST AGGRESSIVE SCHEDULE

¶3. (U) The EU has stipulated that all Galileo primary contractors be of EU origin, stemming from a decision to limit bidders to EU member states because Galileo is a matter of EU security. However, this does not legally preclude EU primary contractors from partnering with U.S. firms on a sub-contractual basis.

¶4. (SBU) Astrium officials explained that the European Space Agency (ESA) is currently reviewing preliminary offers from primary bidders and in March 2009 bidders will specify their supply chain, which is where U.S. sub-contractors (if any) will be officially named. After a series of "dialogues and refinements," our contacts explained that the ESA plan is to award final contracts by June 2009 with construction to begin immediately thereafter. (COMMENT: This last statement was delivered with laughter as our Astrium contacts admitted that this construction plan is very ambitious. END COMMENT)

ASTRIUM CITES MANUFACTURING ABILITY AND EXPERIENCE AS EDGE

¶5. (SBU) Astrium, bidding against OHB Technologies to build 26 of the 30 Galileo satellites, believes that their experience constructing the first four Galileo satellites coupled with their superior manufacturing capacity will ultimately lead to their landing the contract. Astrium officials said that the EU's current

plan to manufacture 26 satellites in three years would demand sophisticated high-volume manufacturing capabilities and precise control of supply chains. Astrium officials argued that OHB Technologies was the much smaller bidder and that it is unclear whether or not they have the production know-how or capacity to fulfill the contract.

U.S. INVOLVEMENT IN GALILEO CONTRACTS A DICEY SITUATION

¶6. (SBU) On the technical side, Astrium's representatives pointed out that American contractors could have an advantage up front if they had appropriate components on the shelf or have components that they could modify easily for Galileo. They pointed out, however, that the American GPS system is a more robust, hardened design compared to the smaller, more streamlined Astrium design for Galileo. Because of this, they thought American contractors might be challenged to adapt their larger or heavier products to fit on the smaller Galileo platform.

¶7. (SBU) More importantly, on the political side, Astrium officials made it clear that their bidding war with OHB would likely lead to EU political interference regarding the presence of U.S. subcontractors and the amplitude of the U.S. role. Additionally, Astrium officials noted EU aspirations to distribute adequately an appropriate piece of the Galileo pie to each of the major EU Galileo contributor nations. This could crowd contract distributions, reducing the political attractiveness of non-EU subcontractors. However, Astrium said that although the political gamesmanship in awarding supply contracts would "create challenges" for American suppliers, it would "not cut them out" by any means. In addition to from the United States, Astrium expected to see contractor bids from companies in France, Germany, Great Britain, and Italy, and maybe

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aspirants from other EU countries.

COMMENT

¶8. (SBU) The confidence that Astrium conveyed in securing the contract to build 26 Galileo satellites may be a little premature considering that OHB beat Astrium on the bid to build the SAR-Lupe (space radar imaging system) constellation for the German Ministry of Defense. Further, Astrium cannot count on the German Government to lobby for them since both bidders are German already. In addition, OHB has quietly strengthened its own position by purchasing in April 2008 UK based Surrey Satellites Technology Limited (SSTL) - builder of the first Galileo In-Orbit Element (GIOVE-A). Given that Galileo is now EU tax-payer funded, the presence of potential significant participation of U.S. sub-contractors may raise political sensitivities of EU pride and job loss, and that in very financially uncertain times.

NELSON